

The Economics of Historic Preservation

Biddeford, Maine

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Thank you.

I'm sure many of you love what you do for a living. But I have to tell you that I have the best job in America. Every year I get to go to a hundred or so cities of every size – from villages of 450 people in the middle of Kansas to Cleveland, Chicago, Los Angeles, and every size in between. In the last two weeks I've been in State College, Pennsylvania; Collingswood, Ontario; and New Brunswick, New Jersey; In the next two weeks I'll be in Hartford, Connecticut; Ann Arbor, Michigan; Nogales, Arizona; Raleigh, North Carolina; and both Paris and London.

But that's not even the best part of my job. Here's what I do. I go in, act like I know what I'm talking about, and leave. No responsibility, no implementation, no follow-through. I don't actually have to do anything. Which is probably just as well, because I don't really have many skills. But I do have one. I'm a very good note taker. I go places, watch what people are doing, what seems to succeed and what seems to fail and I take notes. And from those notes I make lists. That's what I really do for a living – I'm a list maker. And then I go around sort of regurgitating lists and pass it off as actually knowing something. A few weeks ago on my 60th birthday I leaped into the 21st century by beginning a blog. And much of that blog is just a series of lists, as is what you'll hear from me this morning.

Kristen Cady contacted me some time ago to come here, and my assignment was to talk about the economics of historic preservation, which I intend to do. But as I often tell preservation clients, in the long run preservation's economic impact is far less important than its educational, environmental, cultural, aesthetic, historical, and social impact. In the long run none of us really care what the compounded, discounted, internal rate of return on an after-tax basis is for the plazas in Florence, nor are we particularly interested in the job creating impact that the building of Monticello had on the Charlottesville economy. In the long run, all of those other values of historic preservation are more important than the economic value. But as the great economist John Maynard Keynes said, "In the long run we're all dead."

In the short run, however, those who have the most influence on what happens to our historic resources – property owners, mayors and legislators and city managers, bankers, developers, investors – many of those interests – legitimately in my opinion – do care about the economic value of heritage buildings. And often it is through the door of economic impact that those decision makers become advocates for historic preservation on the other, more important grounds.

Almost fifteen years ago Peter Brink at the National Trust asked me to write the book on the Economics of Historic Preservation. Almost twenty five years ago I was getting my preservation degree at Columbia University and at that time the discussion of historic

preservation and money in the same sentence was considered déclassé, something akin to attending an Episcopal Church social then eating your dessert with a salad fork. It just wasn't done in polite company. Well, that's no longer true. Twenty years ago historic preservation was an end in itself – save old buildings in order to save old buildings. Today the historic preservation movement is a broad-based, multi-faceted movement where historic resources are means, not ends. And preservation has become a means of downtown revitalization, neighborhood stabilization, affordable housing, luxury housing, heritage tourism, education, and, my little niche in the world, economic development.

In the last decade particularly, considerable research has been done on the economic role of historic preservation. I'd like to quickly go through some of the ways this has been true, and give you a factoid or two from the lessons that have been learned.

While most of my clients are local or state governments, downtown organizations, non-profit organizations or preservation groups, what I really am is an economic development consultant. And at the top of the list for economic development measurements are jobs created and increased local household income. The rehabilitation of older and historic buildings is particularly potent in this regard. As some of you may know, as a rule of thumb, new construction will be half materials and half labor. Rehabilitation, on the other hand, will be sixty to seventy percent labor with the balance being materials. This labor intensity affects a local economy on two levels. First, we buy an HVAC system from Ohio and lumber from Georgia, but we buy the services of the plumber, the electrician, and the carpenter from across the street. Further, once we buy and hang the sheet rock, the sheet rock doesn't spend any more money. But the plumber gets a hair cut on the way home, buys groceries, and joins the YMCA – each recirculating that paycheck within the community.

Many people think about economic development in terms of manufacturing, so let's take a look at that. The average manufacturing concern in Maine for every million dollars of production 16.8 jobs are created. But that same million dollars in the rehabilitation of an historic building here in Maine? 23.6 jobs.

A million dollars of manufacturing output in Maine will add, on average about \$524,000 to local household incomes. But a million dollars of rehabilitation? Nearly \$783,000. Now of course the argument can be made, "Yeah, but once you've built the building the job creation is done." Yes, but there are two responses to that. First, real estate is a capital asset – like a drill press or a box car. It has an economic impact during construction, but a subsequent economic impact when it is in productive use. And we'll talk about some of those uses to which historic buildings have been placed. Additionally, however, since most building components have a life of between 25 and 40 years, a community could rehabilitate 2 to 3 percent of its building stock per year and have perpetual employment in the building trades. And these jobs can't be shipped overseas.

Now there are some economists and politicians who would argue that in economic down turns like we're having now public expenditures should be made to create employment. And I'm certainly not going to argue with that. And as you all know, among politicians' favorite forms of public works is building highways.

David Listokin at the Center for Urban Policy Research at Rutgers has calculated the relative impact of public works. Let's say a level of government spends \$1 million building a highway. (And these days that means a highway not quite the length of this room) but anyway a million dollar highway – what does that mean? 34 jobs, \$1.2 million in ultimate household income, \$100,000 in state taxes and \$85,000 in local taxes.

Anyway, we could build highways or we build a new building for \$1 million. 36 jobs, \$1,223,000 in household income, \$103,000 in state taxes and \$86,000 in local taxes. Or we could spend that million rehabilitating an historic building. 38 jobs, a million three in household income, \$110,000 in state taxes and \$92,000 in local taxes. Now you tell me which is the most economically impacting in public works projects.

A second broad area of the economic impact of historic preservation is downtown revitalization. There really is a resurgence of city centers in towns and cities of every size all over America. And this is the area where I do most of my work. So I could talk for hours about why this is important. But I'll leave it at this – I cannot identify a single example of a sustained success story in downtown revitalization where historic preservation wasn't a key component of that strategy. Not a one. Conversely the examples of very expensive failures in downtown revitalization have nearly all had the destruction of historic buildings as a major element. Now the relative importance of preservation as part of the downtown revitalization effort will vary some, depending on the local resources, the age of the city, the strength of the local preservation advocacy groups, and the enlightenment of the leadership. But successful revitalization and no historic preservation? It ain't happening.

In fact by far the most cost effective program of economic development - not just of historic preservation or downtown revitalization - but the most cost effective program of economic development of any kind is a program you're all familiar with – Main Street. Main Street is commercial district revitalization in the context of historic preservation. Main Street started as a program for downtowns of small towns. In the last 25 years some 2200 communities in all 50 states have had Main Street programs. Over that time the total amount of public and private reinvestment in those Main Street communities has been nearly \$45 Billion. There have been 83,000 net new businesses created generating nearly 370,000 net new jobs. There have been 200,000 building renovations. Every dollar invested in a local Main Street program leveraged nearly \$27 of other investment. The average cost per job generated - \$2,500 - less than a tenth of what many state economic development programs brag about.

Another area that consistently emerges as a major component of preservation's economic impact is heritage tourism. Ask someone who is in the business of economic analysis and they'll tell you how tricky trying to figure out exactly what "tourism expenditures" are. I live in Washington, D.C. If I rent a car and drive to New York City for a weekend is the toll on the Jersey Turnpike a tourism expenditure or not? Well, I'm not an expert in econometric modeling, so I've avoided trying to calculate composite numbers. Instead I've simply looked at the incremental difference between the expenditures of heritage visitors and other types of tourists. Virginia is one of the states that subscribe to a giant survey data base that questions households about did they travel, where, how much did

they spend, etc. The data is sortable. So in a study a few years ago we sorted out the patterns of heritage visitors. We defined heritage visitors as those who did one or more of the following: visited a museum (in Virginia around 90% of the museums are history museums), visited a Civil War battlefield, or visited an historic site. And we contrasted those patterns with visitors to Virginia who did none of those things. Here's what we found: heritage visitors stay longer, visit twice as many places, and on a per trip basis spend 2 ½ times as much money as other visitors. Wherever heritage tourism has been evaluated this basic tendency is observed: heritage visitors stay longer, spend more per day, and, therefore, have a significantly greater per trip economic impact.

Some individual historic sites have done their own analysis. Biltmore, the great historic estate in the mountains of Western North Carolina commissioned a study of their local impact – and you can see these numbers – 760 employees, \$215 million to the local economy, \$5 million in taxes, etc. But to me the most impressive number is this one – for every \$1 a visitor spent at Biltmore itself, over \$12 was spent elsewhere – hotels, restaurants, gas stations, retail shops, etc. Biltmore was the magnet to come to Asheville, but for every dollar the Biltmore reaped, others garnered another \$12 – impressive leveraging of resources.

Now I said that I've never tried to estimate total tourism dollars, but there are lots of people smarter than I who have. The University of Florida in conjunction with Rutgers did an economic analysis of historic preservation in Florida. Now for non-Floridians, this is not a state that immediately comes to mind as being heritage tourism based. We tend to think of Disney World, beaches, and golf courses. Tourism is clearly the largest industry here in Florida. But just the heritage tourism portion of that industry has impressive impacts, with over \$3 billion in expenditures, half a billion in taxes, and over 100,000 jobs. And while most of the jobs, predictably, are in the retail and service industries, in fact nearly every segment of the economy is positively affected.

I am not a tourism expert, but I'm even less of a Biblical scholar. But there's a bible verse that many of you will recognize. It comes from Matthew 16:26, and goes, "So what is a man profited, if he shall gain the whole world, and lose his own soul?" I would suggest to you that the verse can be altered just a bit to ask the question, "So what is a community profited, if it shall gain the whole world, and lose its own soul?" When historic preservation is done right, the biggest beneficiaries are not the tourist, or even the restaurants, motels, and gas stations. The biggest beneficiaries are the local citizens who gain a renewed appreciate of their own community and its unique history.

Perhaps the area of preservation's economic impact that's been looked at most frequently is the effect of local historic districts on property values. It has been looked at by a number of people and institutions using a variety of methodologies in historic districts all over the country. And the most interesting thing is the consistency of the findings. Far and away the most common result is that properties within local historic districts appreciate at rates greater than the local market overall and faster than similar non-designated neighborhoods. Of the several dozen of these analyses the worst case scenario is that housing in historic districts appreciates at a rate equivalent to the local market as a whole.

Particularly important today is recent analysis that indicates that historic districts are also less vulnerable to the volatility that real estate values are often subject to during interest rate fluctuations and economic downturns.

For a long time local historic districts were opposed by some property owners, elements of the real estate community, and a handful of anti-government activists on the grounds that one more layer of regulation would, *prima facie* reduce property values. Now that that argument has been effectively refuted local historic districts have been under attack from two new sources.

The first you've no doubt heard about and perhaps are seeing in some towns here in Maine – the McMansion. This is where a developer buys a lot with a modest scale home, demolishes it, and the replacement is a large, out-of-scale, out-of-context structure. These are parasite buildings. They are taking advantage of the character of the existing neighborhood, but are fundamentally destroying that character. They look out the lumberyard Palladian window of their 1000 square foot master bedroom suite on a great residential neighborhood. And their neighbors now have to look out the window at a residential structure on steroids. I recently heard them called “starter castles.”

I said that local historic districts are now under attack on two fronts, I'll come back to the second shortly.

Every five years or so *Time* and *Newsweek* will have a cover story on the “back to the city” movement. And indeed that really is happening all over the country. Washington DC where I live is certainly no exception. I live about downtown exactly half way between the White House and the Capitol and a block and a half from the National Archives. The 1990 population in what is now my zip code was 11 – and that was probably mostly homeless. The 2000 population was 901 and I can look out my window and see 1000 units built since the Census.

But wherever you look, the “back to the city” movement hasn't been back to the city in general, but back to the historic neighborhoods within the city. There may be new construction and new neighborhoods built eventually, but the first attraction back to the city is invariably historic areas. Our former mayor in Washington, Anthony Williams, established an ambitious but commendable goal of attracting 100,000 new residents to Washington over the next decade. So we looked at what had happened to Washington during the decade of the 90s. The overall population of Washington fell in that 10 year period from 607,000 to about 572,000. But that pattern certainly was not consistent throughout the city. Had Washington's historic districts declined at the same rate as did the rest of the city, the 2000 population would have been less than 562,000. Conversely had the entire city grown at the rate the historic districts grew, our population in 2000 would have been over 621,000. When “back to the city” happens, historic districts are the first magnet.

A frequently underappreciated component of historic buildings is their role as natural incubators of small businesses. It isn't the Fortune 500 who are creating the net new jobs in America. 85% of all net new jobs are created by firms employing less than 20

people. One of the few costs firms of that size can control is occupancy costs – rents. In both downtowns but especially in neighborhood commercial districts a major contribution to the local economy is the relative affordability of older buildings. It is no accident that the creative, imaginative, small start up firm isn't located in the corporate office "campus" the industrial park or the shopping center – they simply cannot afford the rents there. Older and historic commercial buildings play that role, nearly always with no subsidy or assistance of any kind.

Pioneer Square in Seattle is one of the great historic commercial neighborhoods in America. The business management association there did a survey of why Pioneer Square businesses chose that neighborhood. The most common answer? That it was a historic district. The second most common answer? The cost of occupancy. Neither of those responses is accidental.

After decades of declaring that communities had to choose between historic preservation and economic development, professionals in the field are finally realizing that is a false choice. That instead historic preservation is an excellent vehicle for economic development.

Perhaps the most visible change in this attitude comes from the Economic Development Administration of the U.S. Department of Commerce. This year for the first time, in addition to their awards for innovation in such categories as Excellence in Rural Economic Development, Excellence in Technology-led Economic Development, and Excellence in Enhancing Regional Competitiveness, EDA has added Excellence in Historic Preservation-led Strategies to Enhance Economic Development. And the first winner of this award is the Main Street program in Silver City, New Mexico.

One area that is a bit less obvious. You know we all diligently recycle our Coke cans. It's a pain in the neck, but we do it because it's good for the environment. Land fill throughout the country is increasingly expensive in both dollars and environmental quality. Now even though a quarter of everything dumped at the landfill is from construction debris, we don't often think about the environment in relation to the demolition of historic buildings. But let me put it in context for you. Let's say that today we tear down one small building like one of these in downtown Biddeford. We have now wiped out the entire environmental benefit from the last 1,344,000 aluminum cans that were recycled. We've not only wasted an historic building, we've wasted months of diligent recycling by the good people of your community. Now why doesn't every environmentalist have a bumper sticker saying "Recycle your aluminum cans AND your historic buildings." Either that or let us off the hook from having to sort those Coke cans every week.

There is no movement in America today that enjoys a more broad based support across political, ideological, and geographical boundaries than does *Smart Growth*. Democrats support it for environmental reasons, Republicans for fiscal reasons, big city mayors, rural county commissioner, there are Smart Growth supporters everywhere. The increasing public volume and political expenditures of Smart Growth's opponents is in direct relationship to Smart Growth's broad and growing support.

And the Smart Growth movement has a clear statement of principles, and here it is:

- Create range of housing opportunities and choices
- Create walkable neighborhoods
- Encourage community and stakeholder collaboration
- Foster distinctive, attractive places with a Sense of Place
- Make development decisions predictable, fair, and cost effective
- Mix land uses
- Preserve open space, farmland, natural beauty and critical environmental areas
- Provide variety of transportation choices
- Strengthen and direct development toward existing communities
- Take advantage of compact built design.

But you know what? If a community did nothing but protect its historic residential and commercial neighborhoods it will have advanced every Smart Growth principle. In fact, any Smart Growth strategy that doesn't have historic preservation at its core is stupid growth, period.

Having said that, we are beginning to see the divergence of interest between Smart Growth advocates and historic preservation. The argument goes like this: "If density is good, if proximity to the center of the city is good, then let's tear down those little old houses and replace them with six story condominiums." Recently I heard one of the idiot spokesmen for the New Urbanists say, "you preservationists are going to have to accept saving only the façade because density is a moral imperative." Well, I'm not so sure I want a former real estate developer who now bills himself as a "metropolitan land strategist" deciding what moral imperatives are. Furthermore, not a dictionary written by Salvador Dali on drugs would call this lunacy "historic preservation". We might as well have this Oklahoma version of the facadomy.

As preservationists we're going to have to be prepared for this assault, because with \$4 gasoline, the pressures are beginning to rise quickly. I think the answers are going to have to be four fold:

1. It should not be just density, but density at a human scale, and that's what both residential and commercial historic districts around the country are providing right now.
2. If we do need to raze existing structures to densify, we should be doing it in those very low density, mediocre quality, automobile oriented subdivisions of the 60s and 70s, not our historic neighborhoods.
3. We need to have more of the kind of research that was recently undertaken by Terry Holzheimer, the director of economic development in Arlington, Virginia. He looked at density patterns in the entire Washington metropolitan region, and concluded, "Relatively high intensity development can be achieved within constraints posed by the height, form and texture of traditional communities as is demonstrated in places such as Georgetown and Alexandria."

4. We need to point out that a policy where density trumps everything else, it will be at the expense of not only historic preservation, but also small business incubation and affordable housing.

Which brings me to the next question I have for you: what is the most pressing economic development challenge of 2008? Affordable housing. For a long time housing affordability was a social service issue – how do we house the least fortunate among us. Today it has become a central economic development issue. And this is beyond, and frankly independent of the real estate crash driven by sub-prime lending.

And what is the most significant economic development variable in the year 2008? Quality of life.

And I would suggest to you that historic preservation has a vital role to play in both of those.

Some of you probably know Dick Moe, the president of the National Trust. Well Dick is a smart guy, and has been around Washington for a long time and since he's been at the Trust he's pushed the Trust to be more active on the policy front. Dick was early on in the Smart Growth movement, in many cases dragging other preservationists kicking and screaming into the anti-sprawl movement. Many preservationists, frankly, didn't initially understand the connection. But we do now and that's to Dick's credit.

So four years ago Dick looked around, saw that Smart Growth had its own momentum and pondered internally what the next major Trust policy initiative should be. He'd been hearing this emerging issue of affordable housing so wanted to understand what link, if any, there was between housing affordability and older and historic houses. So we took a look.

Of the many lessons learned, here are some of the most telling:

- In the market place older and historic houses – those built before 1950 – disproportionately meet the housing needs of those of modest means
- The majority of this older, affordable housing is simply provided by the market, with no subsidies, incentives, or government intervention of any kind.
- If today we had to replace the pre-1950 housing being occupied by households living at the poverty level, using the most cost effective Federal program it would cost the tax payers \$335 Billion dollars – that's like paying for another Iraq war.

Well if affordable housing – what the ULI calls workforce housing – is a critical need and if older housing is disproportionately meeting that need, then there must be a major effort going on to keep this housing inventory viable, right? Alas, that's not the case. In the every day, seven days a week, 52 weeks a year for the last thirty years we've lost 577 units of older and historic housing – 80% of which were single family dwellings. I say "lost", but it's not that we misplaced them. A few were destroyed by tornados and a few hit by lightning, but the vast majority of them were consciously torn down.

And for those with the most historic significance? The 90s are generally seen as a decade rather enlightened about historic preservation. But during that ten years removed forever were 772,000 housing units built before 1920, arguably our most historic.

The result? We are systematically tearing down what is affordable and building what is not. The McMansion is compounding that problem as is a myopic policy of density above all.

But people of modest means need more than just low rent. They also need proximity – to schools, shopping, work, and transportation. Where are those daily needs nearly always nearby? In our older and historic neighborhoods. Where are those daily needs almost never nearby? – new subdivisions.

I earlier said that affordable housing was the most critical economic development challenge today and that that cliché – quality of life – was the most significant economic development variable. Now there are some who think that “quality of life” is simply a function of urban design. And everybody has their own name for it – New Urbanism, Traditional Neighborhood Development, Transportation Oriented Development, and at the National Governors Association they call it New Community Design.

Well I agree that good urban design is a part of “Quality of Life”. But ultimately quality of life will be determined by five senses: the sense of place, the sense of evolution, the sense of ownership, the sense of identity and the sense of community itself.

The Greeks had a phrase – *horror vacui* – the intolerability of no-place-at-all. Many places in America have approached that *horror vacui*. On a trip to California I picked up a copy of the Sacramento Bee one morning and read a local columnist – Steve Weigand – and here’s what he wrote. “And from the Brave New World of the Internet comes the following new term. “Generica: fast food joints, strip malls and subdivisions, as in ‘we were so lost in Generica, I didn’t know what city it was.’”

Generica isn’t just a California phenomenon or just a city or suburban phenomena. Generica is happening everywhere and I would suggest it is at the heart of the challenge of economic development, smart growth and place economics. Generica undermines all five senses – the sense of place, of evolution, of ownership, of identity and of community.

In his book *The Good Society* sociologist Robert Bellah observes, “Communities, in the sense in which we are using the term, have a history – in an important sense they are constituted by their past – and for this reason we can speak of a real community as a ‘community of memory’, one that does not forget its past.” Generica diminishes each of the five senses; preservation of the historic built environment enhances each of the five senses, and constitutes the physical manifestation of a “community of memory”. Historic preservation builds both community and place; Generica destroys both community and place.

As we are all painfully aware, this is an election year. And every side in every race is supported by hundreds of advocacy movements. And most of them are “rights” movements: animal rights, abortion rights, right to life, right to die, states rights, gun

rights, gay rights, property rights, women's rights, and on and on and on. And I'm for all of those things – rights are good. But I would suggest to you that any claim for rights that is not balanced with responsibilities removes the civility from civilization, and gives us an entitlement mentality as a nation of mere consumers of public services rather than a nation of citizens. A consumer has rights; a citizen has responsibilities that accompany those rights. Historic preservation and downtown revitalization are responsibility movements rather than rights movements. They are movements that urge us toward the responsibility of stewardship, not merely the right of ownership. Stewardship of our historic built environment, certainly; but stewardship of the meaning and memory of our communities manifested in those buildings as well.

The widely admired American author Eudora Welty in her collection of essays entitled *The Eye of the Story* wrote, "it is our describable outside that defines us, willy-nilly, to others, that may save us, or destroy us, in the world; it may be our shield against chaos, our mask against exposure; but whatever it is, the move we make in the place we live has to signify our intent and meaning."

I conclude with the Welty quotation because her last line ought to be our guidepost for how we act toward our own communities – "...the move we make in the place we live has to signify our intent and meaning." Our communities – the places we live – ought to be strong, vigorous, in good health. The places we live ought to be valuable places, places with significance, places with meaning.

Historic preservation adds significance, adds meaning, and importantly adds value. That's why historic preservation needs to be a central strategy of every community. Thank you very much for having me here this morning.

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